



**Acme-Cleveland
Corporation
Annual Report
1973**



About Our People

Visitors to Acme-Cleveland's plants and offices frequently comment on their impressions of our people. Customers remark about the personal attention to their needs, about follow-through on detail, about the prompt handling of their business on the phone, and especially about our willingness to make that extra effort when they need special help. Visitors also comment on the first-name relationship, on the impressive skills and pride of workmanship, and on the enthusiasm and personal involvement throughout our organization.

When we get reactions like this, we tell the visitors they have identified a fundamental element of our success. This is a compliment to our visitors; it also happens to be true.

By picturing a candid cross-section of the more than 5500 people at Acme-Cleveland on the cover of our annual report, we hope to convey something of the impressions our visitors get in person. We also want to put more emphasis on the importance of our people at Acme-Cleveland than would be the case just by using words like "people are our most important asset" — which also happens to be true.

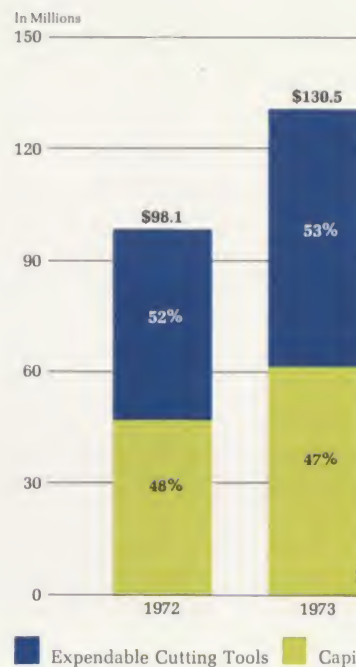
W. Paul Cooper



Financial Highlights

	YEAR ENDED SEPTEMBER 30	
	1973	1972
Net Sales	\$127,851,000	\$ 96,001,000
Net Earnings	6,688,000	3,178,000
Earnings Per Share	1.74	.83
Dividends Per Share82	.80
Plant and Equipment:		
Expenditures	5,024,000	4,090,000
Depreciation	3,235,000	3,046,000
Number of Shareholders	7,604	7,632
Number of Employees	5,554	4,912

Revenues



Earnings



Report to Shareholders

During our most recent fiscal year, which ended September 30, 1973, net sales of Acme-Cleveland Corporation increased from \$96,001,120 to \$127,850,966 — an increase of 33.2 percent over the previous fiscal year. Net earnings increased from \$3,177,604 to \$6,687,828 — an increase of 110.5 percent. This represents a net profit of \$1.74 per share, compared with a net profit of \$.83 per share the preceding fiscal year. Dividends of \$.82 a share were paid, as compared with \$.80 a share the previous fiscal year. In addition, the quarterly dividend rate was further increased to \$.25 a share this past November.

Economic Perspective

Our nation's production in physical terms during 1973 promises to be in excess of 6 percent over 1972, an increase considerably above that of the long-term, sustainable growth rate of the economy. It has been a year of growing shortages, lengthening lead times, and a general tendency toward over-heating. Furthermore, it has been accompanied by two developments of great concern. First, inflation has re-emerged as the major domestic economic problem. Inflation had subsided markedly in the three years ending last December to an annual rate of around 3 percent. Sparked by an explosion in food prices, the general price level is now rising at a rate of approximately 7 percent.

While inflation was returning to the forefront of public awareness, the energy shortage was gradually becoming more apparent. It has long been recognized within the energy industries and warned about by them. However, 1973 probably brought the first general awareness of this shortage. The embargo on oil shipments to our country dramatically accelerated our recognition of the problem, but too few people realize as yet that the problem could be with us for several years even if the embargo were lifted today.

1973 saw the thrust of the general business expansion move from consumer goods to capital goods and inventory rebuilding. Moreover, the extent of the shortages — both capacity and inventory — that have developed in 1973 should carry the general expansion well into 1974 despite some expected softening in the demand for certain consumer durable goods, such as homes and automobiles. The events of 1973 unfolded against a background of continuing uncertainties on the domestic political front and continuing uncertainties with respect to the future of wage and price control programs.

Corporate Priorities

Obsolescence takes place in a wider variety of places and situations than we normally think about. It can and does apply to human minds, to human relationships, to manufacturing plants, products and processes, to communities — one could go on and on. Managers must continually look for obsolescence in all its guises and must protect their corporations from its inherent dangers. At the same time, managers must have clear-cut priorities.

As long as an enterprise is financially sound and operating at a reasonable

profit, as is the situation currently at Acme-Cleveland, we believe our first priority is to improve the return on all present investments, to exploit all growth opportunities available with existing products and markets, to harvest the seed corn which has been planted previously, to attract and develop the best people we can for all jobs, and to furnish our customers the highest quality products at the lowest possible prices. In a nutshell, our first priority at any given time is our then present businesses.

Having accepted as our prime priority the preservation of the strong investment built over the past 97 years, we then consider our second priority to be the introduction of new products, the cultivation of new markets, the development of new technical skills, and the building of new facilities for them. Obviously, the successful pursuit of our first two priorities enhances the strength and growth, both short-term and long-term, of our shareholders' investment. At the same time, success in these pursuits enhances the security and financial well-being of all those employees who contribute to this progress.

Our third priority is an essential ingredient in the accomplishment of the first two. It is to manage the affairs of our various operations so that we are responsible business citizens in the communities in which we operate. Being good corporate citizens involves (a) providing equal employment and personal development opportunities regardless of race, creed, sex or age; (b) providing safe and healthy working conditions throughout all facilities; (c) ensuring that all operations are good neighbors in the communities in which they operate by being as clean, attractive and free of negative environ-

mental impact as modern technology permits; and (d) producing useful products which meet the highest standards of safety, quietness and cleanliness. A major share of our revenues go to pay the taxes which support various local, state and national governments. Our continuing profitability is necessary to provide tax revenue to support the various functions of government wherever we conduct business.

A Forward Look

We have already indicated that we believe the general expansion will carry well into 1974. However, we must qualify this belief because of the uncertainties resulting from the energy shortage, the continuing political uncertainties, and the uncertainties with respect to the future of wage and price control programs and the inflation which these programs were supposed to correct.

The inflation and energy problems have much in common. Both problems are representative of the same underlying factor — namely, that world economies have reached the end of an era of superabundance. Until recently, unlimited material resources have been the assumption, and the objective has been how to put human resources to work. Superabundance is no longer the case. The old problem of putting human resources to work — or keeping them at work — remains, but now it is complicated by the necessity of learning to live with limited material resources.

Inflation and shortages — and inflation is usually simply the result of shortages — will continue as we struggle to learn how to cope in an era of limited resources. But it's essential that we

don't complicate these problems any more than is already the case. That is exactly what will happen, however, if we continue along the path of wage-price controls. In a period of limited resources it is essential that markets be allowed to operate. Prices must be allowed to perform their allocative function. This is not possible under a system of controls. If the controls program had any effectiveness (and perhaps its greatest use was in showing its ineffectiveness), it has long since passed. By creating shortages, controls now have reached the point where they are contributing to the inflation they were intended to stop. It is time to end the controls program.

To sum it all up, our best estimate is that 1974 will turn out to be a good year for us in spite of rather more than the usual pressures on our nervous systems. If so, it will have been worth it.

The challenges of successfully pursuing our priorities and carrying the additional burdens of social responsibility are not too different from those faced by most business enterprises today. However, it must be noted that many businesses, both large and small, have failed because of their inability to meet the challenges of today's world. Because of our present strong position and the hard-working, skillful, responsible people in the Acme-Cleveland organization, we look forward confidently to increasing progress and success.

This report would not be complete without recording our sorrow at the deaths of Mr. A. Langeraar, who was in charge of our European cutting tool operations, and of Mr. John Prescott, a director whose wisdom and judgment helped us greatly over the years. We miss them both.



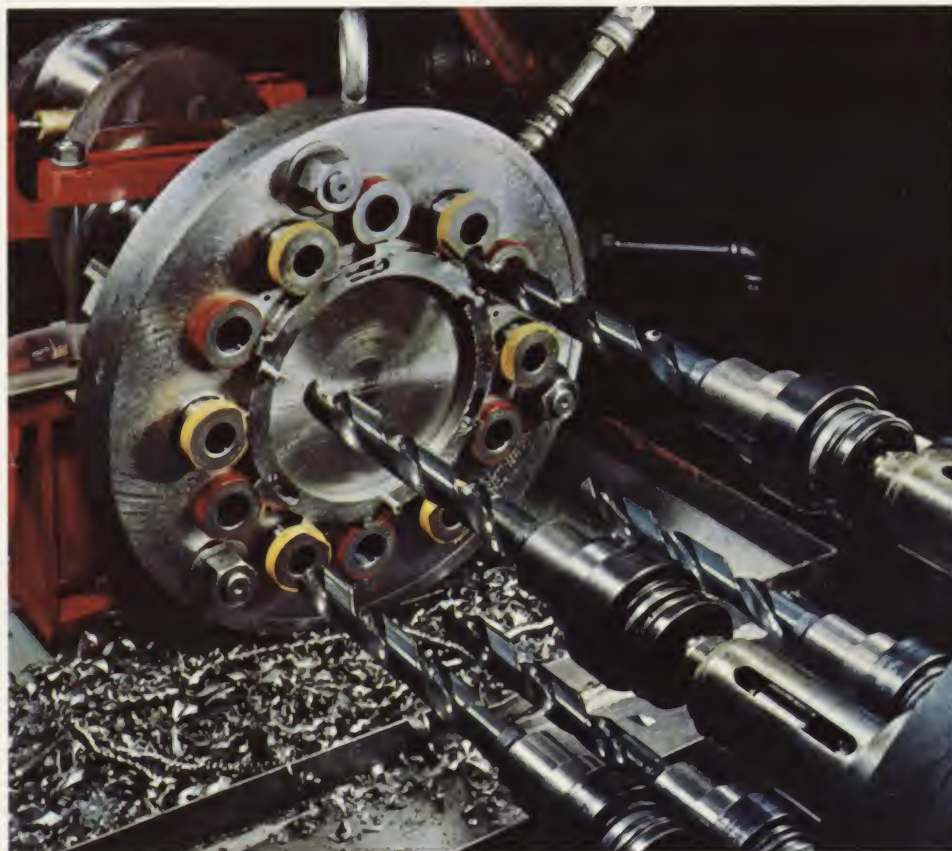
Arthur S. Armstrong, W. Paul Cooper

Chairman of the Board

President

December 18, 1973

Cleveland Twist Drill



The economy's strong demand for manufactured products put heavy pressure in turn on suppliers of perishable tools. Cleveland Twist Drill sales rose 33.5 percent in fiscal 1973, with higher volume across the full range of cutting and threading tools. Export volume — primarily products not made by Cleveland units overseas — was 21 percent ahead of 1972.

Cleveland Twist Drill had anticipated an upsurge in volume with a number of moves to gain capacity. The Cynthiana, Kentucky, plant has progressively broadened the scope of its operations since start-up in 1972. It performs all wire drawing for cutting tools and is processing an increasing volume of high speed steel blanks. This has freed space and manpower for finishing work in other manufacturing locations where additional equipment was installed to expedite production of key product lines. Third shifts have been added for the same purpose. The new equipment, coupled with effective expense controls, is also helping to reduce costs and to preserve the earnings leverage resulting from higher volume.

New products were introduced to a number of the established cutting and

threading tool lines, and a substantial increase was made in metric tools. Of particular interest are the new products added to Cleveland Twist Drill's list through recent acquisitions. The acquisition in June of Circular Tool Company of Providence, Rhode Island, added several new lines of regular cut-off saws, slitting and slotting saws in addition to new types of special products. Other additions to Cleveland Twist Drill's product line include precision machine tool slides for mounting cutting tools or workpieces, and machines for the precision pointing of carbide drills and for dressing diamond grinding wheels. These are products of Otto Griesser GmbH, Loffingen, West Germany, which became a subsidiary of Cleveland Twist Drill last spring.

Cleveland cutting and threading tools are marketed through key industrial distributors, located strategically in our market places. Our success is largely a result of this strong assemblage of efficient, service-minded industrial distributors.

A critical aspect of a sharp upswing in volume and incoming orders is maintaining a high level of customer service and support for our distributors.

Looking ahead, this is the objective in revamping and extending the video data transmission (VDT) used in conjunction with Cleveland Twist Drill's warehousing and distribution system. All district offices and stockrooms are now equipped with VDT units with greater speed and improved response time, to form a network with direct access to our main distribution center. The network also has direct access to a central computer with increased



Cleveland Twist Drill's close working relationship with distributors and customers is indicated by a recent planning conference for the Triple Industrial Supply Convention. Cleveland's executive vice president and director of marketing H. A. Gardner (l.) is also first vice president of the American Supply and Machinery Manufacturers Association. He is with W. R. Ziegler, president of Ziegler Tools, Inc., Atlanta, and of the Southern Industrial Distributors Association; R. V. Dempster, vice president and group executive of The Black & Decker Mfg. Co., Towson, Md., president of McCulloch Corporation and of the American Supply and Machinery Manufacturers Association; and R. L. Daniels, vice president and manager, Garrett Industrial Supply Co., Los Angeles, president of the National Industrial Distributors Association.



The recent acquisition of Circular Tool Company, Providence, R. I., added metal-working saws to Cleveland Twist Drill's product line.

capacity for immediate order entry, order status reporting and inventory management.

Another step toward improving customer service is Cleveland Twist Drill's heavy use of a new transportation system recently put into operation. Company trucks are now making regularly scheduled runs among all production locations and to certain stockrooms and to freight transfer depots that have been established at major market points in the Mid-West and along the East Coast.

Courses for distributor personnel in Cleveland's training center are an important element in a broad service and distribution program involving video data transmission with computer tie-in, automated order filling and, most recently, expedited delivery through a new company transportation system.

National Acme



Machine tool production at National Acme is running at the highest level since 1969. Shipments for 1973 were 21 percent ahead of 1972. The company started fiscal 1974 with a backlog 137 percent higher than the year before and to date there has been little slackening of incoming orders. National Acme's capacity for multiple spindle bar and chucking machines is booked for much of 1974.

The automotive field continues to be National Acme's largest market. Automobile manufacturers have increased their machine tool orders not only to keep pace with higher quotas, but also to produce the additional equipment and components required by the new safety and emission standards. Other customers with heavy orders on the books are anti-friction bearing manufacturers, who use Acme-Gridley machines to produce inner and outer races for ball and roller bearings; appliance and hose-fitting manufacturers, and the screw machine products industry which makes products for a wide variety of industrial applications.



Padded enclosures for rotating stock reels on bar machines are among National Acme's innovations for noise reduction.

Beyond the common objective of increased productivity and lower costs, all of these customers have the added incentive to purchase new machine tools that meet the higher standards in safety and working conditions that have become a matter of government regulation. National Acme's contribution is most pronounced in the area of machine noise reduction. Comprehensive studies in sound attenuation and control have enabled National Acme to redesign their standard line of machines to meet federal noise regulations. Many customers, however, specify even lower sound levels and take delivery of machines equipped with sound-deadening enclosures designed by National Acme. Similar enclosures can be used to bring older machines into compliance. National Acme is now staffed to provide such retrofitting in the field as an additional service.

The company has expanded its customer service in technical training. The program, for which customer companies pay tuition, includes a basic one-week course in the operation and maintenance of Acme-Gridley machines. Advanced courses in production planning and estimating for engineering and management personnel are also available.

National Acme's Special Machines Division, established four years ago, continues to develop as a source for various types of production equipment custom-engineered to meet specific requirements. A current example of Special Machines' work in this area is a new threading machine that will roll a four-pitch 3½-inch diameter thread on a heat-treated steel shaft at a higher production rate and with a thread quality superior to that of other methods presently available.



Productivity is the Acme-Gridley's main selling point — rates of 3,000 parts an hour are not unusual.

Full-capacity production of Acme-Gridley machines demands precise coordination of spindle carrier installation, gear assembly and the other steps leading to final checks and testing in National Acme's Cleveland plant.

Shalco Systems



In the face of a worldwide shortage of castings, producers in the U.S. and abroad have been placing rush orders for new foundry machinery. Shalco's ability to respond put shipments 55 percent ahead of 1972 and 30 percent over the volume originally planned for 1973. The pressure on casting machinery builders is expected to hold through most of 1974. Shalco's backlog at year end was 19 percent ahead of the previous year's.

Most of Shalco's current output is going into new foundries or additions to existing ones, as opposed to replacement. Some 70 percent of shipments are for automotive applications, including trucks, and for farm equipment. The balance is distributed among a wide variety of applications such as pipe fittings, rail equipment parts, machine tools and non-ferrous castings.

Inquiries from the auto industry led to pilot installations of Shalco's new cold box core forming equipment in a number of the industry's leading foundries. The advantages of this

highly automated equipment are speed, reduced labor input and the use of gases rather than heat for setting the core material. This technology is a distinct change from conventional hot box core forming. With the demand for casting capacity supported by good performance from the cold box units now in place, Shalco anticipates an increasing rate of industry acceptance.

Shalco's 1973 production levels would not have been possible without the advantage of a completely rearranged production layout for the main plant in Cleveland, accomplished early in the year. Changes in raw material and parts storage areas, as well as assembly floor space to provide a smoother flow of work in progress, added upwards of 20 percent to Shalco's capacity.

Automotive Pattern, Shalco's Detroit facility, also gained capacity through a building expansion program and the installation of new equipment. One of the new pieces of equipment is a precision tracer milling machine, designed by Automotive Pattern,



which removes metal from up to 16 patterns at once, compared with one pattern at a time previously.

Shalco's largest capital project is a proposed new plant for the manufacture of core blowing and core molding equipment, located on 30 acres of land in Kewanee, Illinois. An outdated structure of 38,000 square feet would be replaced by expandable facilities providing 56,000 square feet for manufacturing and 8,400 square feet of office space.



Shalco's engineering department is concerned with both product design and production flow – the integration of electronic control assembly and other functions with the main production line of shell core machinery and special equipment like the new Saturn mixer for blending molding sand.



Herbert von Wolff, Shalco president, is focusing on turnkey foundry installations as a prime area for the division's growth.



Capital improvements at Automotive Pattern in Detroit added capacity and a handsome facade.

Namco Controls



Solenoid core assembly and circuitry for proximity switches at the Jefferson, Ohio, plant; and, above right, proximity switch testing to assure performance through 100 million cycles.



A leading position in limit switches for the electric power industry and gains in markets for solenoids and proximity switches brought Namco's 1973 sales 24 percent ahead of 1972.

Many of the limit switch requirements for controlling power generating equipment, both nuclear and fossil fuel, are unique applications. Namco holds its share of this market by its ability to make adaptations as required while supplying the volume of standard switches demanded by the long-term increase in electric power generation.

Looking to market expansion, Namco has developed a new miniature limit switch for industrial and machine tool applications which has been submitted for automotive industry approval tests. Similar product modification and market development efforts added substantial increments to both solenoid and proximity switch sales last year.

Two series of solenoids introduced for use as actuators with hydraulic and pneumatic valves on production machinery received excellent sales re-



Using a device created by Namco for its salesmen, president Norman Swanson demonstrates a radio-frequency proximity switch that is accurate in detecting position within .005".

sponse. Additional volume came from their use in automatic timing controls.

Increasing industry acceptance of solid state machine control, as opposed to electro-magnetic control, aided sales of Namco's new radio frequency proximity switches. Unique for its fail-safe feature, the Mark III line performs a critical switching function in production flow control.

In addition to product quality, Namco supported its market penetration efforts with wide exposure at technical trade shows, more direct technical selling by Namco personnel, and more efficient production methods to maintain competitive prices. New equipment installed in the Jefferson, Ohio, plant enables Namco to perform still more of its own operations. New transfer molding machinery producing plastic encapsulated magnetic coils for solenoids has increased volume and improved product performance. A second transfer molding machine is on order to accommodate the projected increases in solenoid sales.



A prominent exhibitor at technical trade shows, Namco credits this exposure with a solid contribution to sales growth.

Acme-Cleveland Development Company



Acme-Cleveland's research and development division, announced a year ago, has completed the transfer of engineering and technical personnel to ACDC's new 77,000-square-foot facility in Highland Heights, Ohio, and has a priority list of approximately 90 projects under way.

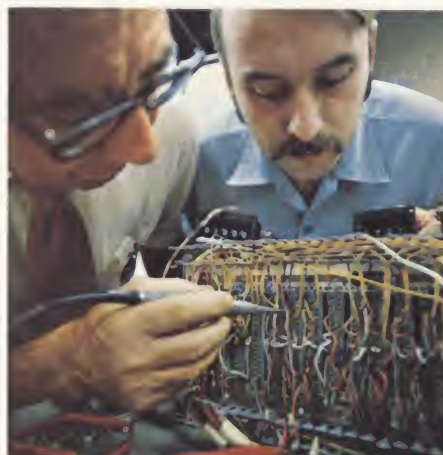


Previously, technical projects within the corporation were carried out essentially on a divisional basis. Expertise was available from other operating units as required by specific projects. Now, under ACDC, expertise from different engineering disciplines has been drawn closely together. The aim is to facilitate the evaluation of new projects, to expedite the work as it progresses, and to enhance Acme-Cleveland's overall technical resources by improved facilities and a cross-fertilization of ideas among the consolidated staff. Evidence to date indicates that these objectives are being accomplished.



The scope of ACDC's activity covers four principal areas: new product development, manufacturing process development, metallurgy, and materials research and testing.

A sampling of current projects represents the nature of ACDC's work and its applications. For Namco Controls, ACDC is developing a solid state control solenoid assembly machine and has devised new procedures for rapidly testing control components to destruction, accomplishing in eight hours what previously required three weeks. Technical evaluation of thread grinding equipment has led to proposals for a new type of machine with greatly improved productivity potential. And, in the category of improved manufacturing methods, an extrusion and twisting process developed by ACDC has increased the efficiency of coolant feeding drill manufacture.



Concentrating on four main areas of research and development, ACDC is able to draw on many diverse talents — in electronics, mechanics, metallurgy, chemistry among others — to give each R&D project the full benefit of Acme-Cleveland's technical resources.

International Operations



Gains in Acme-Cleveland's operations outside the U.S. paralleled those in this country in terms of higher sales and earnings, market penetration and expanding capacity.

Cleveland Twist Drill Limited is substantially expanding the capacity of its Peterhead, Scotland, plant. New equipment and additions to the workforce will add one-third to the capacity for high-volume production of wire drills up to one-half inch, Peterhead's largest product category.

In addition to its job as the European distribution center, Cleveland Twist Drill Nederland B.V. is now starting to take on additional manufacturing responsibilities.

Marked sales gains were reported by both Cleveland Twist Drill Canada Ltd. and Herramientas Cleveland S.A. in Mexico. Starting with a narrow product line four years ago, the Mexican subsidiary has continually expanded the range of products offered and has established strong acceptance for "Diamond C" cutting tools in the Mexican market.

Market development efforts in the Philippines, Japan and Australia produced a higher volume for Cleveland Twist Drill of exports direct from the U.S. Similar efforts among Cleveland Twist Drill operating units in Europe were highlighted by participation in the European International Machine Tool Exhibition, a biennial event that drew 220,000 visitors to Hanover, West Germany, in August. Cleveland Twist Drill's exhibit featured cutting tools manufactured in the U.K., The Netherlands and the U.S. The display also included the carbide tools produced by the recently acquired Otto Griesser GmbH and Griesser's precision machine slides and small specialty machines. A substantial number of sales orders were written during the show.

An equally prestigious Russian trade show awarded a gold medal to the display of foundry machinery presented by Shalco Systems. Shalco also



The expanding product lines at Herramientas Cleveland S.A. include highly specialized cutting tools in addition to regular drills, reamers, milling cutters and tool bits.

sold five machines in the course of Interlitmash '73, the international foundry exhibition that attracted participants from 33 countries to Moscow in September.

Contacts made in Europe added further incentive to Shalco's plans for building sales in Europe and among the Eastern Bloc countries in particular. Shalco Systems GmbH, formed through acquisition a year ago, is a producer of foundry tooling — core boxes, patterns and fixtures, and has just completed a new plant for these lines in Homberg/Ohm, near Frankfurt, West Germany.

National Acme is also actively interested in market potentials abroad, but the current demands of U.S. customers limit the number of export orders that can be accepted. Notable among machine tools shipped abroad last year was a series of seven Acme-Gridleys



Otto Griesser's rural setting contrasts with the hard precision of its products shipped to industrial centers throughout Europe from the plant in West Germany.



The new plant for Shalco Systems GmbH near Frankfurt opened in early December.

now installed in Russia as part of an automated production line for truck engine pistons. These machines, each of which performs 12 separate operations, turn out completely finished heads for the piston assembly.



Shalco's exhibit at Interlitmash '73 in Moscow demonstrated the only USA-built foundry equipment to be awarded a gold medal.

High-production machinery leaving National Acme's plant for Russia helps build Acme-Cleveland's reputation and sales worldwide.



Financial Review

Acme-Cleveland's financial position remained strong in 1973 and provides a base for growth through internal programs and acquisitions. Substantial bank credit lines continue to be available.

Capital Expenditures

Expenditures for capital assets in fiscal 1973 amounted to \$5,024,000, while depreciation totaled \$3,235,000. Capital expenditures and depreciation in fiscal 1972 were, respectively, \$4,090,000 and \$3,046,000. Depreciation is determined generally on the straight-line method using estimated useful lives of plant and equipment. The most advantageous accelerated rates of depreciation are used for federal income tax purposes where available. This difference in treatment increases cash flow for the company.

A total of \$7,473,000 in capital commitments is authorized for 1974, principally for new production equipment to increase the productivity of the company's manufacturing plants in all locations. There will also be selective increases in capacity, both in domestic and international operations.

Other Investments

During the year the company spent approximately \$2,102,000 in cash for acquisition of the product lines of Circular Tool Company and an 80 percent interest in the Otto Griesser companies, West Germany. Also, \$285,000 was used to purchase 22,500 Acme-Cleveland common shares in the open market. These shares are available for reissue in case previously granted stock options are exercised, or for other corporate purposes as may be determined by the Board of Directors.

Investments in common shares of several German manufacturing companies, which were principally acquired after World War II in payment of accounts receivable, are carried on the books at a value of \$312,000. The market value of these shares at August 31, 1973 was \$1,265,000.

Debt

The principal long-term debt consists of a \$10,000,000 term loan agreement with a group of banks, repayable in installments over a four-year period. Total borrowings, both short- and long-

term in the United States and abroad, were \$15,787,000 at September 30, 1973.

Acme-Cleveland operations outside the United States make major use of local financing, in local currencies, to help neutralize the effect of currency exchange fluctuations.

Compared to the total long-term debt plus shareholders' equity, long-term debt remains a conservative 12.6 percent of total capital. As a result, substantial additional resources are available to the company to respond to expanding levels of demand.

Interest costs in 1973 were \$209,000 higher than last year. This is the result of both higher interest rates and expanded borrowings.

International Operations

Revenues from international operations, including royalties, sales and other income of foreign subsidiaries, and sales to foreign customers of products manufactured in the United States in 1973 were \$29,572,000, compared with \$20,027,000 in 1972. Net earnings on these revenues in 1973 were \$1,923,000, compared with \$507,000 in 1972.

Revenues from international operations were 23 percent of total revenues and the net earnings were 29 percent of total net earnings.

Federal Tax Obligations

Federal income tax returns through 1969 have been examined and settled, and it is believed that adequate provision for income taxes has been made for all open years.

The provision of \$5,876,000 for 1973 income tax has been reduced by investment tax credits of \$189,000.

The domestic international sales corporation (DISC) formed in 1972 is providing benefits under the government's tax deferral program designed to stimulate export shipments, and all export sales are being channeled through it. No federal income tax has been provided on approximately \$306,000 of DISC earnings in 1973.

Receivables

The increase to \$19,959,000 in accounts receivable on September 30, 1973 is largely due to the higher sales volume during the year. Overall, established

credit policies have been closely adhered to and collection experience continues to be good. Customer financing, represented by \$4,547,500 of interest-bearing notes secured by title retention contracts, increased \$1,133,000 over the amount outstanding at 1972 year-end.

Inventories

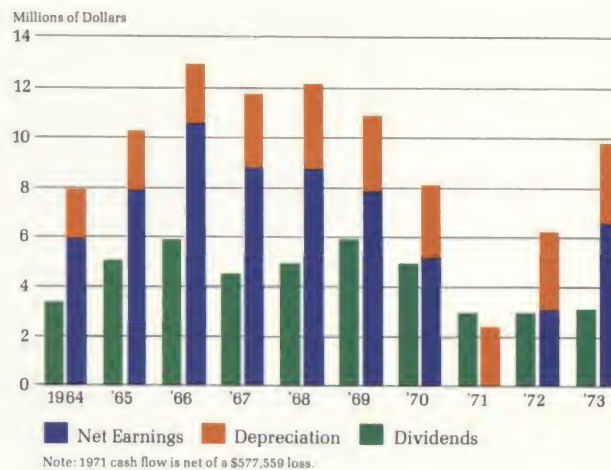
Consolidated inventories of \$44,133,000 increased \$6,609,000 over the previous year. Of the total inventory, work in process and finished products amounted to \$37,596,000. A significant portion of the increase in the work in process is the initial build-up for substantially expanded shipments scheduled for the capital equipment product lines in 1974. Inventories amounting to \$31,516,000 at September 30, 1973 and \$25,289,000 at September 30, 1972 are stated at last-in, first-out (LIFO) cost. Such inventories if stated at first-in, first-out (FIFO) cost would be approximately \$11,715,000 and \$10,822,000 greater respectively. If the FIFO cost basis had been used instead of LIFO, after-tax earnings for 1973 would have been approximately \$464,000 more than shown in this report. The LIFO method of accounting for inventories matches current costs with current revenues, thus minimizing taxes and enhancing cash flow.

Employee Wages and Benefits

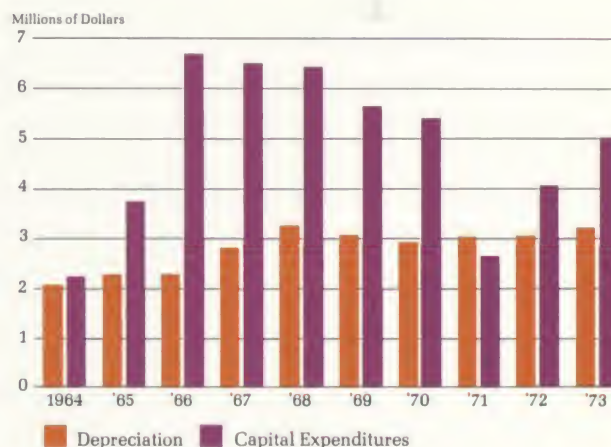
Wages and the costs of employee benefits, including pensions, Social Security payments, hospitalization and medical insurance, vacation plans, group life insurance and other benefits for the years 1973 and 1972, were as follows:

	1973	1972
Total wages	\$52,621,000	\$40,528,000
Pensions	\$ 2,381,000	\$ 1,595,000
Social Security taxes	3,153,000	2,112,000
Hospitalization and medical insurance	2,585,000	2,262,000
Other employee benefits	7,029,000	5,043,000
Total benefits	\$15,148,000	\$11,012,000

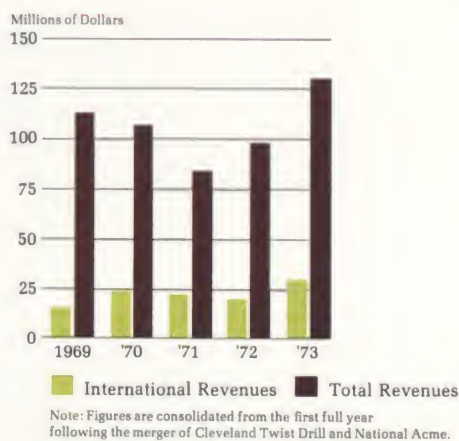
Cash Flow and Dividends



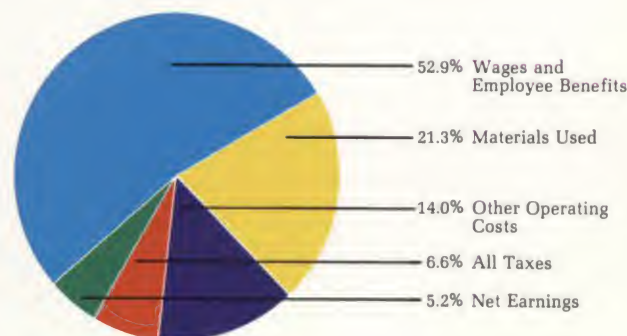
Capital Expenditures and Depreciation



Total Revenues and Revenues from International Operations



Distribution of 1973 Sales Dollar



Ten Year Statistical Review

ACME-CLEVELAND CORPORATION
AND SUBSIDIARIES

	1973	1972
Sales and Earnings		
Net Sales	\$127,850,966	\$96,001,120
Earnings (Loss) before Taxes	12,563,828	6,056,604
Income Taxes	5,876,000	2,879,000
Net Earnings (Loss)	6,687,828	3,177,604
Net Earnings to Net Sales	5.2%	3.3%
Earnings (Loss) per Share	1.74	.83
Dividends Paid	3,148,280	3,075,786
Other Financial Information		
Current Assets	\$ 71,453,340	\$57,493,398
Current Liabilities	27,206,073	15,768,995
Working Capital	44,247,267	41,724,403
Shareholders' Equity (Net Worth)	66,855,616	63,600,922
Shareholders' Equity per Share	17.42	16.54
Property, Plant and Equipment—Net	31,169,157	29,863,420
Capital Additions	5,023,718	4,089,657
Depreciation	3,234,652	3,046,095
General Information		
Average number of Shares Outstanding	3,836,847	3,844,732
Number of Shareholders	7,604	7,632
Number of Employees—Year-End	5,554	4,912

*Includes extraordinary credits of \$687,000
or \$.18 per share.

The 1969 figures are for the 12 months ended September 30, which includes the transitional 3-month period ending December 31, 1968, which was previously reported. All figures in this report are combined to reflect the merger of The Cleveland Twist Drill Company and National Acme Company in 1968 on a pooling of interest basis. The 1968 figures are for the 12 months ended December 31. Figures for 1967 and prior years are the result of combining the 12 months ended December 31, for National Acme Company with the 12 months ended September 30, for The Cleveland Twist Drill Company.

1971	1970	1969	1968	1967	1966	1965	1964
\$81,358,419	\$104,631,272	\$109,827,768	\$109,390,676	\$108,470,330	\$106,046,914	\$85,845,324	\$71,939,581
(1,007,559)	9,103,766	16,207,859	17,629,824	17,304,475	19,861,715	14,707,327	10,964,678
(430,000)	4,570,000	8,290,000	8,779,382	8,002,167	9,177,619	6,749,635	5,040,000
(577,559)	5,220,766*	7,917,859	8,850,442	8,997,963	10,684,096	7,957,692	5,924,678
—	5.0%*	7.2%	8.1%	8.3%	10.1%	9.3%	8.2%
(.15)	1.36*	2.05	2.22	2.25	2.67	2.01	1.51
3,075,626	4,996,552	5,949,069	4,941,590	4,514,617	5,994,599	5,087,693	3,450,188
\$58,544,616	\$ 61,186,389	\$ 58,449,567	\$ 58,726,106	\$ 58,532,750	\$ 57,996,777	\$52,980,417	\$48,876,201
11,164,606	14,014,431	20,194,447	23,612,285	16,412,771	16,383,332	10,449,038	8,897,053
47,380,010	47,171,958	38,255,120	35,113,821	42,119,979	41,613,445	42,531,379	39,979,148
63,499,104	67,147,289	66,909,765	64,801,836	66,403,215	61,545,446	56,802,355	53,468,477
16.52	17.47	17.41	16.91	16.57	15.41	14.34	13.65
29,295,784	30,052,809	27,731,116	25,886,891	22,999,108	18,462,677	13,731,357	12,399,017
2,666,573	5,422,425	5,681,331	6,468,505	6,517,241	6,712,255	3,740,508	2,209,154
3,044,998	2,930,853	3,051,725	3,276,479	2,827,291	2,278,132	2,260,767	2,060,937
3,844,547	3,843,427	3,853,801	3,983,985	4,004,908	3,994,938	3,960,358	3,917,470
7,946	8,033	8,097	6,883	6,979	6,697	6,187	5,534
4,759	5,451	5,402	5,414	5,383	5,121	4,598	4,214

Statement of Consolidated Earnings

ACME-CLEVELAND CORPORATION
AND SUBSIDIARIES

	YEAR ENDED SEPTEMBER 30	
	1973	1972
Revenues:		
Net sales	\$127,850,966	\$96,001,120
Royalty income	1,465,423	1,176,858
Other income	1,199,422	942,001
	<u>130,515,811</u>	<u>98,119,979</u>
Cost and expenses:		
Cost of products sold	90,417,166	68,541,413
Selling, administrative and general expense	22,873,391	19,503,394
Depreciation — Note A	3,234,652	3,046,095
Interest	991,969	782,509
Other	434,805	189,964
	<u>117,951,983</u>	<u>92,063,375</u>
Earnings before Income Taxes	12,563,828	6,056,604
Income taxes:		
State and local	470,000	147,000
Federal and foreign:		
Currently payable	5,279,000	2,410,000
Deferred — Note A	127,000	322,000
	<u>5,876,000</u>	<u>2,879,000</u>
Net Earnings	\$ 6,687,828	\$ 3,177,604
Net earnings per Common Share — Note F	<u>\$1.74</u>	<u>\$.83</u>

Statement of Consolidated Shareholders' Equity

ACME-CLEVELAND CORPORATION
AND SUBSIDIARIES

	Common Shares		Other Capital	Retained Earnings	Total
	Shares	Amount			
Balance at October 1, 1971	3,844,732	\$3,844,732	\$3,293,774	\$56,360,598	\$63,499,104
Net earnings for the year				3,177,604	3,177,604
Cash dividends, quarterly at \$.20 a share				(3,075,786)	(3,075,786)
Balance at September 30, 1972	3,844,732	3,844,732	3,293,774	56,462,416	63,600,922
Net earnings for the year				6,687,828	6,687,828
Cash dividends, quarterly at \$.20 a share through the third quarter and at \$.22 a share for the fourth quarter				(3,148,280)	(3,148,280)
Purchase of Common Shares for treasury	(22,500)	(22,500)	(19,276)	(243,078)	(284,854)
Balance at September 30, 1973	<u>3,822,232</u>	<u>\$3,822,232</u>	<u>\$3,274,498</u>	<u>\$59,758,886</u>	<u>\$66,855,616</u>

See notes to consolidated financial statements.

Statement of Consolidated Financial Position

ACME-CLEVELAND CORPORATION
AND SUBSIDIARIES

	SEPTEMBER 30	
	1973	1972
Current Assets		
Cash	\$ 2,814,353	\$ 1,984,839
Trade receivables:		
Accounts	19,958,871	14,570,202
Notes and installment contracts including amounts due beyond one year (1973 — \$2,376,301; 1972 — \$1,765,290)	4,547,500	3,414,558
	24,506,371	17,984,760
Inventories — Note A:		
Work in process and finished products	37,595,572	32,225,978
Raw materials and supplies	6,537,044	5,297,821
	44,132,616	37,523,799
Total Current Assets	71,453,340	57,493,398
Less Current Liabilities		
Notes payable to banks	2,919,720	1,027,916
Accounts payable and accrued expenses	11,131,625	7,544,734
Salaries, wages, other compensation and payroll taxes	6,677,722	4,163,170
Income taxes	3,288,968	2,663,756
Current portion of long-term debt	3,188,038	369,419
Total Current Liabilities	27,206,073	15,768,995
Working Capital	44,247,267	41,724,403
Property, Plant and Equipment— on the basis of cost		
Land	2,256,521	2,306,663
Buildings	19,322,650	18,742,295
Machinery and equipment	48,075,387	45,347,589
	69,654,558	66,396,547
Less allowances for depreciation	38,485,401	36,533,127
	31,169,157	29,863,420
Other Assets	2,636,038	2,232,698
	78,052,462	73,820,521
Long-Term Liabilities		
Long-term debt—Note B	9,679,581	8,829,364
Deferred federal income taxes — Note A	1,517,265	1,390,235
	11,196,846	10,219,599
Net Assets—Representing Shareholders' Equity	\$66,855,616	\$63,600,922
Shareholders' Equity		
Serial Preferred Shares, without par value:		
Authorized — 1,000,000 shares — none issued		
Common Shares, par value \$1 per share — Note C:		
Authorized — 10,000,000 shares		
Issued and outstanding, excluding 22,500 shares held in treasury in 1973	\$ 3,822,232	\$ 3,844,732
Other capital	3,274,498	3,293,774
Retained earnings — Note B	59,758,886	56,462,416
	\$66,855,616	\$63,600,922

See notes to consolidated financial statements.

Statement of Changes in Consolidated Financial Position

ACME-CLEVELAND CORPORATION
AND SUBSIDIARIES

Source of Funds	YEAR ENDED SEPTEMBER 30	
	1973	1972
From operations:		
Net earnings	\$ 6,687,828	\$ 3,177,604
Items not requiring outlay of working capital:		
Depreciation	3,234,652	3,046,095
Deferred federal income taxes	127,000	322,000
Total from Operations	10,049,480	6,545,699
Disposals of property, plant and equipment	483,329	475,926
Increase in long-term debt	1,358,017	1,205,248
	11,890,826	8,226,873
Application of Funds		
Purchase of Common Shares for treasury	284,854	—0—
Dividends paid	3,148,280	3,075,786
Additions to property, plant and equipment	5,023,718	4,089,657
Reduction of long-term debt	507,800	6,664,284
Other	403,310	52,753
	9,367,962	13,882,480
Increase (Decrease) in Working Capital	\$ 2,522,864	\$ (5,655,607)
Changes in the Components of Working Capital:		
Current assets — increase (decrease):		
Cash	\$ 829,514	\$ (1,835,811)
Trade notes and accounts receivable	6,521,611	1,423,136
Refundable federal income tax	—0—	(833,000)
Inventories	6,608,817	194,457
Current liabilities — (increase) decrease:		
Notes payable to banks	(1,891,804)	(502,224)
Accounts payable and accrued expenses	(3,586,891)	(619,101)
Salaries, wages, other compensation and payroll taxes	(2,514,552)	(1,013,534)
Income taxes	(625,212)	(2,257,711)
Current portion of long-term debt	(2,818,619)	(211,819)
Increase (Decrease) in Working Capital	\$ 2,522,864	\$ (5,655,607)

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

ACME-CLEVELAND CORPORATION
AND SUBSIDIARIES

SEPTEMBER 30, 1973 AND 1972

Note A—Accounting Policies and Practices

Acme-Cleveland Corporation and its subsidiaries' accounting and reporting policies conform to generally accepted accounting principles and to industry practices on a consistent basis between years. Significant accounting policies and practices, for which alternative practices are available, are described below:

CONSOLIDATION — The consolidated financial statements include the accounts of the Corporation and all of its subsidiaries. Long-term assets of foreign subsidiaries are translated at the rates of exchange in effect at the dates these assets were acquired. All other assets and liabilities, including debt payable in local currencies, are translated at the rate of exchange at the close of the period. Translation adjustments, not material in amount, are charged or credited to income. Revenue and expense accounts are translated at the average exchange rates which were in effect during the year except for depreciation and amortization which are translated at the rates of exchange which were in effect when the respective assets were acquired. Upon consolidation, all significant intercompany items and transactions are eliminated. Revenues, net earnings (loss) and net assets of the foreign subsidiaries approximated \$13,420,000, \$620,000, \$7,550,000, at September 30, 1973 and \$8,110,000, (\$330,000), \$7,630,000 at September 30, 1972.

TRADE RECEIVABLES — In accordance with industry practice, installment contracts receivable due beyond one year are classified as current assets.

INVENTORIES — Inventories are priced at cost (principally last-in, first-out method of determination) not in excess of replacement market. Such valuations were less than first-in, first-out method of determination of the inventories by approximately \$11,715,000 at September 30, 1973 and \$10,822,000 at September 30, 1972.

DEPRECIATION — Depreciation of property, plant and equipment is computed by the straight-line method based upon the estimated useful lives of the assets.

PENSION EXPENSE — Annual pension expense provides for normal cost and amortization of prior service costs over periods of 18 to 40 years.

RESEARCH AND DEVELOPMENT — Research and development expenditures are charged to operations as incurred.

INCOME TAXES — Income taxes were reduced by \$189,000 (\$116,000 in 1972) for investment tax credit which is accounted for by the flow-through method.

The Company's Domestic International Sales Corporation (DISC), which receives certain tax benefits under provisions of the Revenue Act of 1971, had unremitted earnings of approximately \$880,000. Approximately \$440,000 of DISC earnings are not currently subject to federal income taxes.

Because the Company plans to finance foreign expansion and operations by reinvestment of the earnings of foreign subsidiaries, no deferred income taxes have been provided on approximately \$986,000 of the unremitted earnings of such subsidiaries. Deferred income taxes are provided to recognize the effect of timing differences between financial and tax reporting, principally relating to depreciation and DISC income.

Note B—Long-Term Debt

	SEPTEMBER 30	
	1973	1972
Liability to banks under revolving credit agreement	\$ —0—	\$6,500,000
Liability to banks under term loan agreement	10,000,000	—0—
Lease obligation to the State of Ohio requiring payments (including interest averaging 6%) of approximately \$158,000 annually through December 1, 1980	1,002,316	1,100,000
Various debt arrangements of foreign subsidiaries maturing at various dates to 1981 and bearing interest rates of 5% to 12¾%	1,500,980	1,184,460
Other notes payable at various dates to 1977, and bearing interest rates of 5% to 6%	364,323	414,323
	12,867,619	9,198,783
	3,188,038	369,419
Less current portion	<u>\$ 9,679,581</u>	<u>\$8,829,364</u>

At September 30, 1973, the Corporation converted its borrowings under a revolving credit agreement with a group of banks into a term loan, which is repayable in 16 equal quarterly installments beginning December 30, 1973. The loan bears interest at

Note B—Long Term Debt (continued)

the rate of ½ % above the prime rate then in effect which was 10% at September 30, 1973. The loan agreement contains restrictive covenants, certain of which cover the maintenance of working capital and limit capital distributions (as defined) including the payment of cash dividends. Retained earnings of approximately \$4,650,000 were unrestricted for the payment of future cash dividends at September 30, 1973.

Aggregate payments of long-term debt will be approximately \$3,188,000, \$2,902,000, \$2,851,000, \$3,136,000 and \$166,000 respectively for each of the five years following September 30, 1973.

Note C—Stock Options

A stock option plan authorizes the issuance of Common Shares to key employees at not less than the market price on dates of grant. The options become exercisable over a period of five years, beginning one year after date of grant. At September 30, 1973, options for 32,812 shares (32,800 shares at September 30, 1972) were exercisable and 89,650 shares (106,000 shares at September 30, 1972) were available for future options.

A summary of the changes in outstanding stock options follows:

	Shares	Option Price	
		Per Share	Aggregate
Outstanding at October 1, 1971	66,750	\$21.25 to \$26.34	\$1,581,281
Cancelled or expired	11,950	21.25 to 26.34	268,269
Outstanding at September 30, 1972	54,800	23.38 to 26.34	1,313,012
Granted	16,600	14.75	244,850
Cancelled or expired	11,050	23.38 to 26.34	290,356
Outstanding at September 30, 1973	60,350	14.75 to 23.38	1,267,506

Note D—Leases

Total rental expense for all leases amounted to:

	1973	1972
Financing leases	\$ 149,927	\$ 107,328
Other leases	1,225,391	974,521
	<u>\$1,375,318</u>	<u>\$1,081,849</u>

The future minimum rental commitments as of September 30, 1973 for all noncancelable leases are as follows:

	Total	Financing Leases		Other Leases	
		Buildings	Equipment	Buildings	Equipment
1974	\$ 952,627	\$ 47,628	\$128,892	\$ 77,315	\$ 698,792
1975	735,612	47,628	128,892	74,541	484,551
1976	596,516	47,628	128,892	62,901	357,095
1977	430,926	38,035	57,057	43,970	291,864
1978	235,243	28,440	—0—	37,000	169,803
1979-1983	234,135	142,200	—0—	64,750	27,185
1984-1988	136,320	136,320	—0—	—0—	—0—
1989-1991	50,760	50,760	—0—	—0—	—0—
	<u>\$3,372,139</u>	<u>\$538,639</u>	<u>\$443,733</u>	<u>\$360,477</u>	<u>\$2,029,290</u>

The impact on net income would not be significant assuming all noncapitalized financing leases were capitalized, related assets were amortized on a straight-line basis and interest cost accrued.

Note E—Pension and Profit Sharing Plans

The Corporation and its subsidiaries have several pension plans, certain of which were amended during the year to provide for increased benefits, covering substantially all employees. The total pension expense was approximately \$2,380,000 for 1973 and \$1,595,000 for 1972. The Corporation's policy is to fund pension cost accrued. The actuarially computed value of vested benefits for certain plans as of their respective anniversary dates exceeded the market value of their pension funds by approximately \$6,338,000 at September 30, 1973.

The Corporation has several employee profit sharing plans in effect. Amounts contributed under such plans are based upon the annual earnings of the respective operating units. Such contributions amounted to \$2,118,000 in 1973, and \$510,000 in 1972.

Note F—Earnings Per Share

Net earnings per Common Share are based on the weighted average number of Common Shares outstanding. The inclusion of stock options (common stock equivalents) would be antidilutive.

Accountants' Report

Board of Directors

Acme-Cleveland Corporation
Cleveland, Ohio

We have examined the statement of consolidated financial position of Acme-Cleveland Corporation and subsidiaries as of September 30, 1973 and 1972, and the related statements of consolidated earnings, shareholders' equity, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying statements identified above present fairly the consolidated financial position of Acme-Cleveland Corporation and subsidiaries at September 30, 1973 and 1972, and the consolidated results of their operations, and changes in shareholders' equity and financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

ERNST & ERNST

Cleveland, Ohio
November 26, 1973

Acme-Cleveland Corporation and Subsidiaries

Board of Directors

Arthur S. Armstrong
*Chairman of the Board and
Chief Executive Officer*

Ralph M. Besse
Partner—Squire, Sanders & Dempsey

Carleton Blunt
*Counsel to Bell, Boyd, Lloyd,
Haddad & Burns, Chicago*

Raymond E. Channock
*Consultant and formerly President,
Acme-Cleveland Corporation*

Charles W. Clark
Vice President

W. Paul Cooper
President and Chief Operating Officer

Stephen M. DuBrul, Jr.
Partner—Lazard Freres & Co., New York

Robert C. Ochs
*Director of Engineering, Truck
Components Group, Eaton Corporation*

Jacob B. Perkins
President, The Hill Acme Company

Karl H. Rudolph
*President and Chief Executive Officer,
The Cleveland Electric Illuminating
Company*

Earl P. Schneider
Partner—Thompson, Hine and Flory

John C. Stites
*Special Assistant to the
Chairman of the Board*

Officers

Arthur S. Armstrong
*Chairman of the Board and
Chief Executive Officer*

W. Paul Cooper
President and Chief Operating Officer

Charles W. Clark
Vice President

Herbert von Wolff
Vice President

Thomas M. Skove
Treasurer

Henry R. Hatch III
Secretary

Lawrence R. Cowin, Jr.
Controller

James M. Tompkins
Assistant Controller

Leonard W. Schiemann
Assistant Treasurer

General Counsel

Thompson, Hine and Flory,
Cleveland

Auditors

Ernst & Ernst, Cleveland

Transfer Agents and Registrars

The Cleveland Trust Company
Bankers Trust Company, New York

Listing

Acme-Cleveland Corporation
common shares are listed on the
New York Stock Exchange under
the ticker symbol AMT.

Operations

NATIONAL ACME DIVISION

Machine Tools and Special Machines
Cleveland, Ohio

Namco Machinery Limited
Luton, England

Machine Tool Licensees:
Alfred Herbert Limited
Coventry, England

Pittler Maschinenfabrik A.G.
Frankfurt/Main, West Germany

Mitsubishi Heavy Industries, Ltd.
Tokyo, Japan

CLEVELAND TWIST DRILL COMPANY

Cutting and Threading Tools Division
Cleveland, Ohio

Bay State Plant
Mansfield, Massachusetts

Providence Plant
Providence, Rhode Island

Spira-Loc Manufacturing Plant
Kent, Washington

Cleveland Twist Drill Canada Ltd.
Rexdale (Toronto), Ontario, Canada

Cleveland Twist Drill Limited
Peterhead and Glasgow, Scotland

Cleveland Twist Drill Nederland N.V.
Maastricht, The Netherlands

Otto Griesser GmbH
Loffingen, West Germany

Herramientas Cleveland S.A.
Pachuca, Mexico

SHALCO SYSTEMS DIVISION

Foundry Systems and Equipment
Cleveland, Ohio; Kewanee, Illinois;
Port Huron, Michigan

Automotive Pattern Company
Detroit, Michigan

Shalco Systems—
Acme-Cleveland GmbH
Stadt Allendorf, West Germany

Foundry Equipment Licensee:
Roterid Companhia Mecanica
Sao Paulo, Brazil

NAMCO CONTROLS DIVISION

Electrical Controls
Cleveland and Jefferson, Ohio

Electrical Controls Licensees:
Herbert Controls & Instruments, Ltd.
Letchworth, Hertfordshire, England

Fritz Dienes GmbH (Switches only)
Muhlheim, West Germany

ACME-CLEVELAND DEVELOPMENT COMPANY

Highland Heights, Ohio

OTHER FACILITIES

Cynthiana Manufacturing Plant
Cynthiana, Kentucky

Annual meeting of shareholders

The annual meeting will be held on
January 24, 1974. Shareholders of record
on December 7, 1973 will be entitled to
vote. The notice, proxy statement and
proxy for the meeting accompany
this report.



**ACME-CLEVELAND
CORPORATION**

P.O. BOX 5617
CLEVELAND, OHIO 44101

